FISCAL PLAN

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INTRODUCTION

Residential, industrial and commercial construction in eastern Loudoun have had major impacts on the County's capital improvement and operating budgets. Employment and commercial centers have generated sufficient revenues to pay for necessary public services and indeed have had a positive impact on County budgets. The industrial base in eastern Loudoun is significant and should be expanded whenever possible. Loudoun County will need to monitor this growth, but can expect that industrial development will assist in keeping property taxes within reasonable bounds.

New housing, on the other hand, fails to generate sufficient tax revenue to cover the operating costs of needed public services, and invariably imposes the need to build new capital facilities. Since eastern Loudoun has been the focus of great residential development, that area has been a major factor in the County's need for extensive public expenditure. Loudoun has paid for these additional costs through careful financial management, bonds, property tax increases and inter-governmental transfers of funds such as revenue sharing. However, there are limits to fiscal prudence, borrowing, property tax increases and grantsmanship. Loudoun County must currently spend some $10,000 in capital improvements per residence. Total public investments are higher still when one considers the other services to which the County contributes such as roads, senior citizen services, health facilities, etc.

Loudoun County has sought in the past to share these fiscal burdens with the development community, and intends to continue this practice in the future. The County is willing to assume its share of development costs if the developer is willing to pay his fair share.

GOALS AND POLICIES

1. General Fiscal Planning Goal:

   In order to plan for a better future for eastern Loudoun County, and for the improved health, safety, welfare and fiscal stability of the area, there is a need for all new development to pay its fair share of new County expenditures.

2. Fiscal Impact Review:

   Assess all major residential and non-residential development proposals in eastern Loudoun County through use of the community services and facilities standards in this plan in the preparation of a fiscal impact assessment for each new development. *(RMP, p. 261, #3).*

3. Phasing Plan:

   Incorporate location and phasing plans for capital facility development as an integral part of planning district and area studies. Carry this information down to the site planning level. *(RMP, p. 261, #4).*

4. Proffers:

Establish definitive criteria and requirements for developer contribution *(proffers)* to public land and capital facility needs, occasioned by new development in eastern Loudoun and the rest of the County. *(RMP, p. 261, #5).*

5. CIP:

Recommend specific additions to the five-year Capital Improvements Program and establish priorities among major public facility commitments for the eastern Loudoun Planning Area. *(RMP, p. 261, #2).*

6. Revenue Analysis:

Encourage revenue diversification within the County government, especially through user fees, to at least reflect changes in financial costs.

7. Tax Base:

Establish a range of employment centers, designed and located to expand the County's tax base and provide employment opportunities for local residents. *(RMP, p. 195, #1).*

EXISTING CONDITIONS

A. Revenue

The most significant revenue source in eastern Loudoun is the property tax from industrial, commercial and residential properties. Property taxes fall into two primary groups. First, is the real estate tax which is the assessment against the value of real property *(primarily land and improvements)*. The second is personal property. Eastern Loudoun residents contribute to the County's income through these forms of tax obligations. The other two areas of income for the County are sales tax and user fees and fines. The sales tax is a single-stage tax on goods and services levied at the point of retail transaction and expressed in percentage terms. It is an incremental tax. User fees and fines are a miscellaneous collection of charges which are paid directly for a service, item or amenity as a means to *"charge back"* costs to the user, generally on a break-even basis. Eastern Loudoun residents benefit from these taxes through State and County services. In general, commercial and industrial development create more revenue in taxes than they require in County services. The fiscal strain is caused by the extensive housing development.

Table 1 presents the County-wide revenue breakdown for fiscal year 1978-1979.

TABLE 1[1]		
COUNTYWIDE LOCAL TAX BREAKDOWN FOR FY 1978-1979		
	Actual Revenue	% of Total
Real Estate Tax	$17,308,954	61.09%
Personal Property Tax	3,057,600	10.79
User Fees and Fines	5,711,920	20.16
Sales Tax (includes alcoholic and profits tax)	2,253,300	7.95
	$28,331,774	99.99%

An indicator of the strength of all local revenue sources against local real estate taxes is the non-property tax divided by real estate property tax ratio. The estimated ratio from the adopted 1979-1980 budget is .63. The closer the ratio is to one (1), the better the County is balancing its resources. These are strictly locally generated taxes where non-property taxes include personal property, sales, user fees and fines, and alcoholic beverage tax. The 1974 Local Revenue Diversification report prepared by the Advisory Commission on Inter-governmental Relations points out the unpopularity of real estate taxation as opposed to any other method of taxation.[2] The report emphasizes the need to diversify County revenue options on a county-wide basis if the County is to better manage its fiscal resources.

In fiscal 1979-1980 the average home in Loudoun paid real property taxes of $729.50.[3] Table 1 indicates that personal property taxes, user fees and fines contributed an additional $459.60 per household. Real property and non-real property taxes thus average some $1,189.10 per dwelling unit. Based on this evaluation, the estimated 7,500 homes in eastern Loudoun contributed some $8,918,250 in taxes to the County.

Loudoun furthermore receives a share of the taxes paid by its citizens to the Commonwealth of Virginia and the Federal Government. These funds are estimated to have averaged $691 per home in fiscal 1979-1980. The 7,500

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1 Information derived from Fiscal Year 1979-80 Loudoun County Budget.

2 Advisory Commission on Intergovernmental Relations. Local Revenue Diversification, (Washington, D.C., Report A-47, October 1974), p. 21.

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Total Real Property Revenues	$16,379,300
Less Commercial & Form Real Property Revenues	2,642,000
Total Real Residential Property Revenues	$13,731,300
Average Real Property Tax Revenue per Dwelling	729.50

dwellings in eastern Loudoun thus contributed some $5,182,500 to local government via Washington and Richmond.

B. Expenditure

New residents generate new demands on County staff, programs and facilities. Eventually new residences require the construction of new public facilities, schools, roads, sewage treatment plants, community centers, and new programs. Technically, new residences should be evaluated for the funds needed to meet these incremental needs. However, marginal cost attribution requires a system of cost identification which the County does not possess. Accordingly this section will attribute county-wide, average costs to new residential construction.

1. County Operating Costs

Table 2 expresses unit household cost figures for major County programs. The table indicates that the average annual operating cost to the County of each household is $2,170. The major element of this total is schools: $1,284. *(It actually costs the County approximately $1,900 per year to educate each child and county-wide every three households send two children to the public schools.)*

TABLE 2[1]

LOUDOUN COUNTY-ESTIMATED HOUSEHOLD COST FISCAL YEAR 1979-1980

Area	Est. Cost	Budget %	Cost/Household
General Govt.	$6,227,242	15.24	$330.67
Police	2,190,525	5.36	116.32
Fire/Rescue	631,034	1.54	33.51
Libraries	395,714	1.00	21.01
Parks & Recreation	869,029	2.13	46.15
County Debt	86,900	.21	4.61
Schools	24,187,993	59.19	1,284.41
School Debt	4,734,001	11.58	251.38
Other School	157,617	.39	8.37
Va. Public Assistance	1,385,557	3.39	73.57
	$40,723,612	100.00	$2,170.00

[1] These figues represent the cost of building facilities in 1980 with money borrowed at 6 1/2% interest over 15 years. Inflation and current interest rates of 8 1/2 - 9% would signficiantly raise costs in future years.

Non-school, general County debt service at $4.61 per household reflects past County policy to borrow prudently, to finance needed expenses out of current revenues and to rent office space rather than build.

2. County Capital Costs

An increasing population generates an increasing demand for services which in turn translates into new school seats, additional library facilities, new ballfields and the like. The cost of building new facilities is substantial and Table 3 gives a cost projection by major County functions.

TABLE 3				
Per Household Capital Costs[4]				
	School	**Gen. Govt.[5]**	**Park-Rec.**	**Fire/Rescue**
Single-Family Detached	$7,200-7,570	$1,464	$1,352	$440
Single-Family Attached	$6,813-7,165	$1,360	$1,256	$376

Thus, the creation of new school seats, parks, fire/rescue, landfill and other capital facilities could cost some $10,500-10,800 for a single-family detached home and $9,800-10,100 for a single-family attached residence.

In addition to these expenditures immediately associated with the County, Loudoun is also involved in the creation and extension of other public facilities such as the Sugarland Run Bridge or Route 28 loop. These projects either tap local resources or intergovernmental transfers, e.g., VDOT Secondary Road Improvement and Industrial Access Funds, and thus drain County capital resources. Lack of direct control over funding sources further complicates the pressing business of maintaining service levels at a per capita constant while balancing the County budget.

4 These figures represent the cost of building facilities in 1980 with money borrowed at 6 1/2% interest over 15 years. Inflation and current interest rates of 8 1/2 - 9% would significantly raise costs in future years.

5 General governmental facilities include the Judiciary and Jail, Youth and Senior Citizen Services, sanitary landfill, Central Administration, Environmental Health, Mental Health, Public Health and numerous related facilities.

C. Revenue/Expenditure Assessment

The County's fiscal planning policy is to match operating service costs with current taxes. The approximately $300 net deficit between per household revenue and service expenditure will need to be re-examined in the light of overall community needs and other County policies such as those designed to attract office development and light industry through favorable tax rates.

In terms of capital investments, the County recognizes that it is heir to 200 years of public improvements and that it is its duty to maintain and create new capital facilities for present residents and for the future. The County further recognizes that new development invariably taps these existing resources while generating new facility needs, and should, therefore, pay a fair share of the cost of these schools, libraries, and the like. *(Failure to do so would result in significantly higher taxes for all County residents and an inequitable subsidy of new development).*

Overall, the County will seek to maintain and improve its delivery of services and this section will review alternative means of financing these services and facilities.

IMPLEMENTATION

A. Financing Alternatives

Property taxes were closely related to income when farming was the predominant economic activity of America since farmland sold as a multiple of average annual crop yields. However, property taxes today have ceased to work in this way. The property tax can cause a hardship if household income should drop temporarily due to a downtown in the economy. Sound taxing policy should include a property tax component to insure a stable revenue base for government expenditures. However, the County should try to find alternative taxes which relate more closely to a household's income.

Eastern Loudoun and the County as a whole depend heavily upon the property tax to finance public expenditures. This revenue source will need to increase markedly over the next decade unless alternative revenue sources are identified because of the amount of services and public expenditures required for anticipated population increase.

1. Development Phasing:

A first step toward preventing an increase in property taxes would be the careful phasing of new development. New neighborhoods typically attract new families with small children. As the neighborhood ages, so do these young students as they graduate from pre-school, elementary and high school. Phasing new development would insure optimum long-run use of schools, playing fields, parks and other public facilities.

2. Trust Funds:

Another means of insuring provision of adequate community facilities is through establishment of community facility trust funds to defray major facility costs. A trust fund is a special purpose fund to account for money and property received from developers at the time of the sale of a home and held by the County Board of Supervisors in the capacity of trustee or custodian. This type of trust fund is known as an expendable public trust fund whose principal and income both must be used for some public purpose.[6] In other words, an individual or corporation can establish a specific or general trust fund to contribute cash, property or some other item on a per household basis to serve a specific community. For example, the U.S. Steel Corporation pledged a per household contribution of $250.00 for the Sterling Park community in the early 1960's which would represent approximately $650.00 today. As a result, the Sterling Community Center was built. These trust deposits can be made for a specific purpose such as highway developments, public buildings and land acquisition for non-determined projects. Some specific areas where trust deposits of land or money should be encouraged would be for schools, parks, community centers, Route 28 *"loop"*, Route 28 bridge and general highway improvement.

To encourage use of such a mechanism, assurances would be made that the purpose of preparing public facilities would serve citizens within a particular development. If sites could be identified for community facilities simultaneously or in advance of new development, the developers would be able to understand the future needs. This mechanism permits smaller developers, whose projects would not by themselves need public facilities, to contribute towards a facility serving a larger area. Under this reasoning, two general approaches become apparent.

The individual or non-public organization establishes a trust fund and names the Board of Supervisors as trustee, or the County establishes a broad range trust fund, to which the development community could contribute. A sliding scale based on density, population or housing units could be established to aid in determining an equitable contribution. This type of fund could be established as part of the Capital Improvements Program.

3. Special Tax District:

Another alternative to pay for specific services or facilities is to establish a special tax district. A special tax district can only be formed in Virginia through limited incorporation. Through this means, a specific area could choose to tax itself, over and above County taxes, in order to obtain services or facilities which are not yet available to the balance of the

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6 National Committee on Governmental Accounting, MFOA, Governmental Accounting, Auditing and Financial Reporting, (Michigan, 1968), p. 75.

County. Service levels could thus be improved beyond usual County policy. For example, eastern Loudoun might choose to increase its level of police protection or to buy additional parkland. Although not advisable at this time, a special tax district might be appropriate at the time of this plan's five year review.

4. Grants:

Pursuit of additional grant monies from the state or federal governments can relieve some of the burden placed on local revenue sources. This would allow higher service levels without changing the existing tax rate. Grantsmanship is a very specialized and time consuming approach, but would be cost effective for the dollars invested. However, a more rigorous, thorough attempt must be made to acquire these funds than has been made in the past. The County recognizes that grants are only interim solutions and eventually the County must fund the projects totally or abandon them.

5. Capital Improvements Program:

The County budget is a combined operating and capital budget, prepared annually to describe anticipated revenues and expenditures. The operating budget describes all recurring or short-life items from salaries to typewriters. This pays for County services which are demanded by County residents. The capital budget is the first year of the Capital Improvements Program and includes all facilities, land or equipment with a life of ten or more years and usually valued in excess of $25,000. These are the management tools which facilitate movement of funds within the County and can be used to encourage growth in those areas best able to deliver public services efficiently. The Capital Improvements Program should be strengthened and all County agencies should be expected to participate.

B. Financing Recommendations

1. Where it is necessary to establish a priority for public and private expenditures for the Eastern Loudoun Planning Area, the following facilities have been established for construction priority:

   a. School Facilities
   b. Police
   c. Fire/Rescue
   d. Parks and Recreation
   e. Libraries

2. These public facilities will be developed either by developer proffer or through the CIP budgetary process. Where a priority for one type of recreational facility must be selected, the following priorities were determined by review of the general needs of the area:

a. Athletic Fields *(Multiple purpose fields)*
b. Community Centers
c. Basketball Courts
d. Trails
e. Outdoor Theater
f. Tennis Courts
g. Swimming Pools
h. Golf Courses

3. The County should establish separate trust funds for the following critical needs in eastern Loudoun County:

   a. Sugarland Bridge Fund
   b. Community Centers
   c. Schools - School Improvements Fund for new construction

4. Proffer Designation:

   The specific proffers necessary for community development in eastern Loudoun are described in the Community Facilities section of this plan.

5. Special Tax District:

   In five to ten years, eastern Loudoun should be considered for designation as a Special Tax District for specific services and utilities. There are inherent problems such as the necessity for a public referendum and state enabling legislation.

6. The following specific capital improvements should appear within the Capital Improvements Program by fiscal year 1982-83, if growth rates dictate the need for such facilities:

   a. Multiple purpose room addition to Sterling Community Center.
   b. A new community center north of Route 7 within six to seven years.
   c. A library north of Route 7 *(a temporary library within four years and a permanent facility within six years).*
   d. Athletic fields, especially ballfields, as soon as possible.

7. All new development should be encouraged to support itself through a system of volunteer developer contributions.

8. The following recommendations are proposed to the Virginia Department of Highways and Transportation:

   a. Construction of the additional toll lanes along the Dulles Access Road.
   b. Provision of direct access to the Dulles Access Road through monitored access ramps from Route 28.

c. Acquisition of park-and-ride lots through developer contributions and grants.

Other priorities for transportation are discussed in the transportation section of the Plan.

9. Establish appropriate zoning and site plan alternatives as suggested in the Residential Development Plan to lower overall development and facility costs.

10. Where possible build multiple purpose buildings to lower new facility costs and increase public use. Schools and recreation can work well together if funding for a larger site or gymnasium is allocated by the Board of Supervisors

11. Seek to reduce real estate taxation through revenue diversification and an aggressive economic development program.

C. <u>Development Review Procedure:</u>

The demand for increased community services and facilities will markedly increase as the population of eastern Loudoun increases and existing facilities become overburdened. In the future, the County will experience pressures to maintain a reasonably low tax rate while providing increased services that require high capital and operating expenditures. Therefore, new development, both residential and non-residential, should be required to pay its fair share of development costs and to contribute to necessary community services. This procedure can be implemented through an extensive Impact Review Process that addresses fiscal, environmental and community impacts resulting from residential and non-residential development. The final density of a development proposal should depend upon conditional zoning criteria, i.e., how the development effectively mitigates its overall impact on the area and the County.

The developer should be required to prove to the County that his voluntary proffers merit the density proposed *(See Residential Plan for appropriate density ranges).* The County's fiscal evaluation should review the following:

1. Fiscal Evaluation Review:

a. <u>Benefit-Detriment Analysis:</u> The development proposal will be reviewed by using a cost benefit or cost detriment analysis. Each unit can be evaluated by determining all public expenditures and revenues likely to result from the proposal. The smaller the net deficit, the higher the density allowed.

b. <u>Community Services:</u> The amount of community services proffered by the developer to alleviate the impact on the existing services, will be used in the overall impact analysis.

c. Capital Improvements Program: The most detrimental effects of new development on County services are caused by the need for major capital expenditures, i.e., schools, roads, bridges, utilities, community centers. The developer able to proffer specific CIP projects that will greatly benefit the community will be given consideration for a higher density of development.

d. Trust Funds: Necessary public expenditures may require an incremental method to finance certain projects, e.g., Sugarland Run bridge or a community center. A trust fund will be established to provide a vehicle for eventual funding of a given project.

e. Proffers: Specific proffered facilities are identified under the individual subject areas. The County will determine the critically important public needs and forward this information to developers, prior to their applications, as part of this area plan and revised zoning regulations.

2. Other Fiscal Implementation Techniques:

a. Demographic Review: The *"Development Activity Report"* should be expanded to accommodate detailed information on demographics, housing development, existing facilities, adequacy of and review of adjacent zoning densities. The goal will be to identify public proffer items for particular areas.

b. Budget Assessment: The County Commissioner of the Revenue should maintain equitable assessments of the entire eastern Loudoun area in order to limit the lag time in assessing properties.

c. Economic Development: The County should investigate the need for a publicly financed Economic Development Corporation with bonding authority. The group could finance the extension of utilities or roads to promote industrial development in eastern Loudoun.

d. Trust Funds: The County should investigate the potential use of trust funds for developer contributions for the eventual construction of:

   a. Bridge at Sugarland Run
   b. Community center north of Route 7
   c. Park development with ballfields
   d. School construction

e. The Capital Improvements Program: will require the following:

   a. Elementary schools north of Route 7.
   b. High schools north of Route 7.
   c. Library expansion *(Sterling and Sugarland) (1984-1986)*
   d. Addition to Sterling Community Center *(1981)*